

**REPORT OF THE AUDIT OF THE  
LARUE COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2015**



**MIKE HARMON  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**LARUE COUNTY FISCAL COURT**

**June 30, 2015**

The Auditor of Public Accounts has completed the audit of the LaRue County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of LaRue County Fiscal Court.

**Financial Condition:**

The LaRue County Fiscal Court had total receipts of \$6,349,233 and disbursements of \$6,613,242 in fiscal year 2015. This resulted in a total ending fund balance of \$2,821,492, which is a decrease of \$153,370 from the prior year.

**Report Comments:**

- 2015-001    The LaRue County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash And Receipts
- 2015-002    The LaRue County Fiscal Court Lacks Strong Internal Controls Over Disbursements
- 2015-003    The LaRue County Fiscal Court Lacks Adequate Controls Over Capital Assets
- 2015-004    The LaRue County Fiscal Court Lacks Adequate Controls Over Reconciliation Of The Payroll  
Revolving Bank Account
- 2015-005    The LaRue County Jailer Did Not Prepare An Annual Financial Statement And Maintain Required  
Records For The Jail Commissary Fund
- 2015-006    The LaRue County Jail Lacks Adequate Segregation Of Duties

**Deposits:**

The fiscal court deposits were insured and collateralized by bank securities.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Tommy Turner, LaRue County Judge/Executive  
Members of the LaRue County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the LaRue County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the LaRue County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
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Members of the LaRue County Fiscal Court

### **Auditor's Responsibility (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described more fully in Note 1 of the financial statement, the financial statement is prepared by the LaRue County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the LaRue County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the LaRue County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the LaRue County Fiscal Court. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

To the People of Kentucky  
 Honorable Matthew G. Bevin, Governor  
 William M. Landrum III, Secretary  
 Finance and Administration Cabinet  
 Honorable Tommy Turner, LaRue County Judge/Executive  
 Members of the LaRue County Fiscal Court

### **Other Matters (Continued)**

#### *Supplementary Information (Continued)*

The accompanying budgetary comparison schedules and the capital asset schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and the capital asset schedule are fairly stated in all material respects in relation to the financial statement as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2016 on our consideration of the LaRue County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LaRue County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2015-001 The LaRue County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash And Receipts
- 2015-002 The LaRue County Fiscal Court Lacks Strong Internal Controls Over Disbursements
- 2015-003 The LaRue County Fiscal Court Lacks Adequate Controls Over Capital Assets
- 2015-004 The LaRue County Fiscal Court Lacks Adequate Controls Over Reconciliation Of The Payroll Revolving Bank Account
- 2015-005 The LaRue County Jailer Did Not Prepare An Annual Financial Statement And Maintain Required Records For The Jail Commissary Fund
- 2015-006 The LaRue County Jail Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

July 12, 2016

LARUE COUNTY OFFICIALS

For The Year Ended June 30, 2015

**Fiscal Court Members:**

|                         |                        |
|-------------------------|------------------------|
| Tommy Turner            | County Judge/Executive |
| Ricky Whitlock          | Magistrate             |
| Gary T. Stewart         | Magistrate             |
| Ronald Dale Nunn        | Magistrate             |
| Glenn Larry Howell, Jr. | Magistrate             |

**Other Elected Officials:**

|                 |                                  |
|-----------------|----------------------------------|
| Kyle Williamson | County Attorney                  |
| Johnny Cottrill | Jailer                           |
| Linda Carter    | County Clerk                     |
| Larry Bell      | Circuit Court Clerk              |
| Russell McCoy   | Sheriff                          |
| Scotty Lee      | Property Valuation Administrator |
| Todd Skaggs     | Coroner                          |

**Appointed Personnel:**

|                |                          |
|----------------|--------------------------|
| Lauralene Reed | County Treasurer         |
| Renee Strock   | Administrative Assistant |
| Clyde Veirs    | Road Supervisor          |
| Nathan Hall    | 911 Administrator        |

**LARUE COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2015**

**LARUE COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2015**

|  | <b>Budgeted Funds</b>   |                      |                      |
|--|-------------------------|----------------------|----------------------|
|  | <b>General<br/>Fund</b> | <b>Road<br/>Fund</b> | <b>Jail<br/>Fund</b> |
| <b>RECEIPTS</b>  |                         |                      |                      |
| Taxes  | \$ 1,692,937            | \$                   | \$                   |
| In Lieu Tax Payments   | 4,084                   |                      |                      |
| Excess Fees  | 225,467                 |                      |                      |
| Licenses and Permits   | 90,556                  |                      |                      |
| Intergovernmental  | 418,792                 | 1,201,358            | 1,441,989            |
| Charges for Services   | 799,928                 |                      | 69,812               |
| Miscellaneous  | 164,468                 | 27,023               | 76,444               |
| Interest   | 11,184                  | 3,066                | 138                  |
| Total Receipts   | <u>3,407,416</u>        | <u>1,231,447</u>     | <u>1,588,383</u>     |
| <b>DISBURSEMENTS</b>   |                         |                      |                      |
| General Government   | 602,833                 |                      |                      |
| Protection to Persons and Property   | 927,006                 |                      | 1,425,907            |
| General Health and Sanitation  | 278,935                 |                      |                      |
| Social Services  | 23,114                  |                      |                      |
| Recreation and Culture   | 77,730                  |                      |                      |
| Roads  |                         | 1,293,367            |                      |
| Debt Service   | 82,564                  |                      | 132,719              |
| Administration   | 975,391                 | 243,715              | 430,627              |
| Total Disbursements  | <u>2,967,573</u>        | <u>1,537,082</u>     | <u>1,989,253</u>     |
| Excess (Deficiency) of Receipts Over<br>Disbursements Before Other<br>Adjustments to Cash (Uses) | <u>439,843</u>          | <u>(305,635)</u>     | <u>(400,870)</u>     |
| <b>Other Adjustments to Cash (Uses)</b>  |                         |                      |                      |
| Payroll Revolving Account  | 110,639                 |                      |                      |
| Transfers From Other Funds   |                         | 65,000               | 505,000              |
| Transfers To Other Funds   | (570,000)               |                      |                      |
| Total Other Adjustments to Cash (Uses)   | <u>(459,361)</u>        | <u>65,000</u>        | <u>505,000</u>       |
| Net Change in Fund Balance   | (19,518)                | (240,635)            | 104,130              |
| Fund Balance - Beginning (Restated)  | 2,284,520               | 245,956              | 19,298               |
| Fund Balance - Ending  | <u>\$ 2,265,002</u>     | <u>\$ 5,321</u>      | <u>\$ 123,428</u>    |
| <b>Composition of Fund Balance</b>   |                         |                      |                      |
| Bank Balance   | \$ 1,135,748            | \$ 6,213             | \$ 123,428           |
| Payroll Revolving Account Reconciled Balance   | 110,639                 |                      |                      |
| Less: Outstanding Checks   | (30,271)                | (892)                |                      |
| Certificates of Deposit  | 1,048,886               |                      |                      |
| Fund Balance - Ending  | <u>\$ 2,265,002</u>     | <u>\$ 5,321</u>      | <u>\$ 123,428</u>    |

The accompanying notes are an integral part of the financial statement.

**LARUE COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2015**  
**(Continued)**

| <b>Unbudgeted Fund</b>                      |                                     |                        |
|---|-------------------------------------|------------------------|
| <b>General<br/>Obligation<br/>Bond Fund</b> | <b>Jail<br/>Commissary<br/>Fund</b> | <b>Total<br/>Funds</b> |
| \$  | \$                                  | \$ 1,692,937           |
|   |                                     | 4,084                  |
|   |                                     | 225,467                |
|   |                                     | 90,556                 |
|   | 6,216                               | 3,068,355              |
|   | 100,502                             | 970,242                |
|   | 15,209                              | 283,144                |
| 24  | 36                                  | 14,448                 |
| 24  | 121,963                             | 6,349,233              |
|   |                                     | 602,833                |
|   |                                     | 2,352,913              |
|   |                                     | 278,935                |
|   |                                     | 23,114                 |
|   | 119,334                             | 197,064                |
|   |                                     | 1,293,367              |
|   |                                     | 215,283                |
|   |                                     | 1,649,733              |
|   | 119,334                             | 6,613,242              |
| 24  | 2,629                               | (264,009)              |
|   |                                     | 110,639                |
|   |                                     | 570,000                |
|   |                                     | (570,000)              |
|   |                                     | 110,639                |
| 24  | 2,629                               | (153,370)              |
| 399,245                                     | 25,843                              | 2,974,862              |
| \$ 399,269                                  | \$ 28,472                           | \$ 2,821,492           |
| \$ 399,269                                  | \$ 31,232                           | \$ 1,695,890           |
|   |                                     | 110,639                |
|   | (2,760)                             | (33,923)               |
|   |                                     | 1,048,886              |
| \$ 399,269                                  | \$ 28,472                           | \$ 2,821,492           |

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2015**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of LaRue County includes all budgeted and unbudgeted funds under the control of the LaRue County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the general fund.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

**Unbudgeted Fund**

The fiscal court reports the following unbudgeted funds:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from canteen operations are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records of receipts and disbursements of the canteen operations and report annually to the county treasurer.

General Obligation Bond Fund - The LaRue County Fiscal Court has funds totaling \$399,269 in the US Bank from a financing lease obligation for future improvements to the courthouse. The general obligation bond fund was reported as an unbudgeted fund on the financial statement. According to the Department for Local Government (DLG), this fund should be budgeted in the county's annual budget before being expended and included in the financial statement. The LaRue County Fiscal Court did not budget this fund. The general obligation bond fund will be budgeted for the next fiscal year and will be fully expended by June 30, 2017 for courthouse renovations.

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

**E. LaRue County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting LaRue County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of LaRue County Fiscal Court.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. LaRue County Elected Officials (Continued)**

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2015.

|                     | General<br>Fund   | Total<br>Transfers In |
|---------------------|-------------------|-----------------------|
| Road Fund           | \$ 65,000         | \$ 65,000             |
| Jail Fund           | 505,000           | 505,000               |
| Total Transfers Out | <u>\$ 570,000</u> | <u>\$ 570,000</u>     |

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Long-term Debt**

**A. Financing Obligation - Golf Course Renovations**

On October 1, 2007, the LaRue County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$1,072,000 for the renovation of the golf course of the LaRue County Golf Association, Inc. (Golf Association). Principal is payable annually on January 20 and interest is payable monthly on the 20<sup>th</sup> of each month. The interest rate is variable. The maturity date of the lease is January 20, 2034. The Golf Association makes lease payments directly to the trustee for principal and interest of the obligation. During fiscal year 2015, total debt service of \$70,788 was due. The Golf Association paid debt service of \$66,231 on behalf of the LaRue County Fiscal Court and the Fiscal Court paid the remaining \$4,557. As of June 30, 2015, the principal balance was \$892,000. The Golf Association has agreed to make the payments due below on behalf of the fiscal court. Future principal and interest requirements are:

| Fiscal Year Ending<br>June 30 | Principal         | Interest          |
|-------------------------------|-------------------|-------------------|
| 2016                          | \$ 25,000         | \$ 44,652         |
| 2017                          | 35,000            | 43,102            |
| 2018                          | 35,000            | 41,360            |
| 2019                          | 35,000            | 39,616            |
| 2020                          | 35,000            | 37,962            |
| 2021-2025                     | 205,000           | 160,233           |
| 2026-2030                     | 265,000           | 103,287           |
| 2031-2034                     | <u>257,000</u>    | <u>30,221</u>     |
| Totals                        | <u>\$ 892,000</u> | <u>\$ 500,433</u> |

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Financing Obligation - Refunding Lease and Courthouse Improvements**

On March 1, 2011, the LaRue County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purpose of refunding the General Obligation Improvement Bonds, Series of 1999 and additional courthouse facility improvements. The original principal was \$1,545,000 at 3.75% interest for a period of 20 years, with interest and principal paid monthly. Total principal outstanding June 30, 2015 totaled \$1,325,000. Future principal and interest requirements are:

| Fiscal Year Ending<br>June 30 | Principal           | Interest          |
|-------------------------------|---------------------|-------------------|
| 2016                          | \$ 60,000           | \$ 70,469         |
| 2017                          | 60,000              | 68,068            |
| 2018                          | 65,000              | 65,519            |
| 2019                          | 70,000              | 62,669            |
| 2020                          | 70,000              | 59,431            |
| 2021-2025                     | 410,000             | 240,094           |
| 2026-2030                     | 530,000             | 115,497           |
| 2031                          | 60,000              | 3,750             |
| Totals                        | <u>\$ 1,325,000</u> | <u>\$ 685,497</u> |

**C. Financing Obligation - Sheriff Police Cruisers**

On September 30, 2009, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of three vehicles for the Sheriff's Department. The original principal balance was \$89,060 at 2.73% interest for a period of six years, with interest and principal paid monthly. The LaRue County Sheriff makes lease payments directly to the trustee for principal and interest of the obligation. During fiscal year 2015, total debt service of \$16,333 was due. The LaRue County Sheriff paid debt service of \$16,333 on behalf of the fiscal court. Total principal outstanding June 30, 2015 totaled \$41,451. The LaRue County Sheriff has agreed to make the payments due below on behalf of the fiscal court. Future principal and interest requirements are:

| Fiscal Year Ending<br>June 30 | Principal        | Interest        |
|-------------------------------|------------------|-----------------|
| 2016                          | \$ 15,192        | \$ 1,081        |
| 2017                          | 15,612           | 599             |
| 2018                          | 10,647           | 125             |
| Totals                        | <u>\$ 41,451</u> | <u>\$ 1,805</u> |

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2015, was as follows:

|                       | Beginning<br>Balance | Additions   | Reductions       | Ending<br>Balance   | Due Within<br>One Year |
|-----------------------|----------------------|-------------|------------------|---------------------|------------------------|
| Financing Obligations | \$ 2,358,235         | \$          | \$ 99,784        | \$ 2,258,451        | \$ 100,192             |
| Total Long-term Debt  | <u>\$ 2,358,235</u>  | <u>\$ 0</u> | <u>\$ 99,784</u> | <u>\$ 2,258,451</u> | <u>\$ 100,192</u>      |

**Note 5. Employee Retirement System**

**A. Plan Description**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous and hazardous duty positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 5. Employee Retirement System (Continued)**

**A. Plan Description (Continued)**

The county's contribution for FY 2013 was \$460,774, FY 2014 was \$417,934, and FY 2015 was \$412,586.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

| <b>Years of Service</b> | <b>% paid by Insurance Fund</b> | <b>% Paid by Member through Payroll Deduction</b> |
|-------------------------|---------------------------------|---|
| 20 or more              | 100%                            | 0%  |
| 15-19                   | 75%                             | 25%   |
| 10-14                   | 50%                             | 50%   |
| 4-9                     | 25%                             | 75%   |
| Less than 4             | 0%                              | 100%  |

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 5. Employee Retirement System (Continued)**

**B. Net Pension Liability**

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, LaRue County's proportionate share of the net pension liability as of June 30, 2015 is:

|               | June 30, 2014       | June 30, 2015       |
|---------------|---------------------|---------------------|
| Hazardous     | \$ 385,000          | \$ 345,000          |
| Non-Hazardous | 2,935,000           | 2,594,000           |
| Totals        | <u>\$ 3,320,000</u> | <u>\$ 2,939,000</u> |

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at [www.kyret.ky.gov](http://www.kyret.ky.gov) or can be obtained as described in the paragraph above.

**Note 6. Deferred Compensation**

On February 24, 2000, the LaRue County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 7. Health Reimbursement Account**

The LaRue Fiscal Court participates in a health reimbursement account to provide employees with an additional health benefit. LaRue County Fiscal Court is the administrator of the plan. The plan provides reimbursement of up to \$10 for Tier 2 and \$35 for Tier 3 for eligible employees, to pay for qualified prescription drug copays. The county treasurer reimburses employees out of the health insurance budget appropriation accounts through the general, road, and jail funds. Employees are required to submit pharmacy receipts along with a claim form with a signature of a pharmacy representative to the county treasurer for reimbursement.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 8. Insurance**

For the fiscal year ended June 30, 2015, LaRue County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Payroll Revolving Account**

The reconciled balance of the payroll revolving account as of June 30, 2015 was added to the general fund cash balance for financial reporting purposes.

**Note 10. Conduit Debt**

From time to time the county has issued bonds to provide financial assistance for industrial facilities and economic development for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the LaRue County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement.

**Note 11. Prior Period Adjustments**

The prior period ending balance for the general fund was increased by \$44 to include prior year voided checks. The prior period ending balance for the jail fund was decreased by \$399,245 for general obligation bond proceeds to be reported separately as an unbudgeted fund.

**Note 12. Accounts Receivable**

**A. Ambulance Service**

The LaRue County Fiscal Court provides ambulance services for citizens in the county. The ambulance service bills Medicare, Medicaid, health insurance companies and individuals for services provided. Unpaid bills at June 30, 2015 totaled \$540,104.

**B. Jail Inmate**

The LaRue County Jail provides housing, medical, and other services for inmates. The inmates are billed for these services. If an inmate account is not paid in full when they are released, it is turned over for collection. The LaRue County Jail contracts with a company to collect outstanding inmate accounts. Unpaid bills for the period July 1, 2014 through June 30, 2015 totaled \$187,572. Total accounts receivable outstanding for inmates at June 30, 2015 were \$1,707,557.

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**LARUE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**



**LARUE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**

|  | <b>GENERAL FUND</b> |                  |                                  |  |
|--|---------------------|------------------|----------------------------------|--|
|  | Budgeted Amounts    |                  | Actual                           | Variance with                          |
|  | Original            | Final            | Amounts,<br>(Budgetary<br>Basis) | Final Budget<br>Positive<br>(Negative) |
| <b>RECEIPTS</b>  |                     |                  |                                  |  |
| Taxes  | \$ 1,640,175        | \$ 1,640,175     | \$ 1,692,937                     | \$ 52,762                              |
| In Lieu Tax Payments   | 3,500               | 3,500            | 4,084                            | 584                                    |
| Excess Fees  | 120,000             | 120,000          | 225,467                          | 105,467                                |
| Licenses and Permits   | 95,000              | 95,000           | 90,556                           | (4,444)                                |
| Intergovernmental  | 433,500             | 433,500          | 418,792                          | (14,708)                               |
| Charges for Services   | 705,000             | 705,000          | 799,928                          | 94,928                                 |
| Miscellaneous  | 22,400              | 22,400           | 81,904                           | 59,504                                 |
| Interest   | 20,500              | 20,500           | 11,184                           | (9,316)                                |
| Total Receipts   | <u>3,040,075</u>    | <u>3,040,075</u> | <u>3,324,852</u>                 | <u>284,777</u>                         |
| <b>DISBURSEMENTS</b>   |                     |                  |                                  |  |
| General Government   | 1,004,050           | 844,975          | 602,833                          | 242,142                                |
| Protection to Persons and Property   | 922,750             | 1,102,317        | 927,006                          | 175,311                                |
| General Health and Sanitation  | 246,250             | 320,708          | 278,935                          | 41,773                                 |
| Social Services  | 25,400              | 31,400           | 23,114                           | 8,286                                  |
| Recreation and Culture   | 124,300             | 106,320          | 77,730                           | 28,590                                 |
| Administration   | 1,183,100           | 1,100,130        | 975,391                          | 124,739                                |
| Total Disbursements  | <u>3,505,850</u>    | <u>3,505,850</u> | <u>2,885,009</u>                 | <u>620,841</u>                         |
| Excess (Deficiency) of Receipts Over<br>Disbursements Before Other<br>Adjustments to Cash (Uses) | <u>(465,775)</u>    | <u>(465,775)</u> | <u>439,843</u>                   | <u>905,618</u>                         |
| <b>Other Adjustments to Cash (Uses)</b>  |                     |                  |                                  |  |
| Transfers To Other Funds   | <u>(363,675)</u>    | <u>(363,675)</u> | <u>(570,000)</u>                 | <u>(206,325)</u>                       |
| Total Other Adjustments to Cash (Uses)   | <u>(363,675)</u>    | <u>(363,675)</u> | <u>(570,000)</u>                 | <u>(206,325)</u>                       |
| Net Change in Fund Balance   | (829,450)           | (829,450)        | (130,157)                        | 699,293                                |
| Fund Balance Beginning (Restated)  | <u>829,450</u>      | <u>829,450</u>   | <u>2,284,520</u>                 | <u>1,455,070</u>                       |
| Fund Balance - Ending  | <u>\$ 0</u>         | <u>\$ 0</u>      | <u>\$ 2,154,363</u>              | <u>\$ 2,154,363</u>                    |

**LARUE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

| <b>ROAD FUND</b>   |                  |              |                                  |  |
|--|------------------|--------------|----------------------------------|--|
|  | Budgeted Amounts |              | Actual                           | Variance with                          |
|  | Original         | Final        | Amounts,<br>(Budgetary<br>Basis) | Final Budget<br>Positive<br>(Negative) |
| <b>RECEIPTS</b>  |                  |              |                                  |  |
| Intergovernmental  | \$ 1,590,847     | \$ 1,590,847 | \$ 1,201,358                     | \$ (389,489)                           |
| Miscellaneous  | 14,000           | 14,000       | 27,023                           | 13,023                                 |
| Interest   | 6,000            | 6,000        | 3,066                            | (2,934)                                |
| Total Receipts   | 1,610,847        | 1,610,847    | 1,231,447                        | (379,400)                              |
| <b>DISBURSEMENTS</b>   |                  |              |                                  |  |
| Roads  | 1,428,047        | 1,453,664    | 1,293,367                        | 160,297                                |
| Administration   | 282,800          | 257,183      | 243,715                          | 13,468                                 |
| Total Disbursements  | 1,710,847        | 1,710,847    | 1,537,082                        | 173,765                                |
| Excess (Deficiency) of Receipts Over<br>Disbursements Before Other<br>Adjustments to Cash (Uses) | (100,000)        | (100,000)    | (305,635)                        | (205,635)                              |
| <b>Other Adjustments to Cash (Uses)</b>  |                  |              |                                  |  |
| Transfers From Other Funds   |                  |              | 65,000                           | 65,000                                 |
| Total Other Adjustments to Cash (Uses)   |                  |              | 65,000                           | 65,000                                 |
| Net Change in Fund Balance   | (100,000)        | (100,000)    | (240,635)                        | (140,635)                              |
| Fund Balance Beginning   | 100,000          | 100,000      | 245,956                          | 145,956                                |
| Fund Balance - Ending  | \$ 0             | \$ 0         | \$ 5,321                         | \$ 5,321                               |

**LARUE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

| JAIL FUND  |                  |              |  |   |
|--|------------------|--------------|--|---|
|  | Budgeted Amounts |              | Actual<br>Amounts,<br>(Budgetary<br>Basis) | Variance with<br>Final Budget<br>Positive<br>Negative |
|  | Original         | Final        |  |   |
| RECEIPTS   |                  |              |  |   |
| Intergovernmental  | \$ 1,584,500     | \$ 1,584,500 | \$ 1,441,989                               | \$ (142,511)  |
| Charges for Services   | 45,250           | 45,250       | 69,812                                     | 24,562  |
| Miscellaneous  | 40,000           | 40,000       | 76,444                                     | 36,444  |
| Interest   | 500              | 500          | 138  | (362)   |
| Total Receipts   | 1,670,250        | 1,670,250    | 1,588,383                                  | (81,867)  |
| DISBURSEMENTS  |                  |              |  |   |
| Protection to Persons and Property   | 1,502,625        | 1,492,667    | 1,425,907                                  | 66,760  |
| Debt Service   | 134,000          | 134,000      | 132,719                                    | 1,281   |
| Administration   | 427,300          | 437,258      | 430,627                                    | 6,631   |
| Total Disbursements  | 2,063,925        | 2,063,925    | 1,989,253                                  | 74,672  |
| Excess (Deficiency) of Receipts Over<br>Disbursements Before Other<br>Adjustments to Cash (Uses) |                  |              |  |   |
|  | (393,675)        | (393,675)    | (400,870)                                  | (7,195)   |
| Other Adjustments to Cash (Uses)   |                  |              |  |   |
| Transfers From Other Funds   | 363,675          | 363,675      | 505,000                                    | 141,325   |
| Total Other Adjustments to Cash (Uses)   | 363,675          | 363,675      | 505,000                                    | 141,325   |
| Net Change in Fund Balance   | (30,000)         | (30,000)     | 104,130                                    | 134,130   |
| Fund Balance Beginning (Restated)  | 30,000           | 30,000       | 19,298                                     | (10,702)  |
| Fund Balance - Ending  | \$ 0             | \$ 0         | \$ 123,428                                 | \$ 123,428  |

**LARUE COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2015**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of the General Fund**

The Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis differs from the Budgetary Comparison Schedule for the general fund in miscellaneous receipts and debt service by \$82,564 due to debt service payments remitted by LaRue County Golf Association, Inc. and the LaRue County Sheriff. The general fund cash balance differs due to the payroll revolving account balance of \$110,639.

**LARUE COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**



**LARUE COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**

The fiscal court reports the following schedule of capital assets:

|                                 | Beginning<br>Balance | Additions         | Deletions        | Ending<br>Balance   |
|---------------------------------|----------------------|-------------------|------------------|---------------------|
| Land                            | \$ 1,107,499         | \$                | \$               | \$ 1,107,499        |
| Buildings and Land Improvements | 8,673,331            |                   |                  | 8,673,331           |
| Other Equipment                 | 1,499,493            | 35,229            |                  | 1,534,722           |
| Vehicles and Equipment          | 1,357,811            | 180,773           | 47,500           | 1,491,084           |
| Infrastructure                  | 7,868,438            | 472,713           |                  | 8,341,151           |
|                                 | <u>\$ 20,506,572</u> | <u>\$ 688,715</u> | <u>\$ 47,500</u> | <u>\$21,147,787</u> |
| Total Capital Assets            |                      |                   |                  |                     |

**LARUE COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2015**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

|                                     | Capitalization<br>Threshold | Useful Life<br>(Years) |
|-------------------------------------|-----------------------------|------------------------|
| Land Improvements                   | \$ 12,500                   | 10-60                  |
| Buildings and Building Improvements | \$ 25,000                   | 10-75                  |
| Equipment                           | \$ 2,500                    | 3-25                   |
| Vehicles                            | \$ 2,500                    | 3-15                   |
| Infrastructure                      | \$ 20,000                   | 10-50                  |

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Tommy Turner, LaRue County Judge/Executive  
Members of the LaRue County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the LaRue County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the LaRue County Fiscal Court's financial statement and have issued our report thereon dated July 12, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the LaRue County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the LaRue County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the LaRue County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001, 2015-003, 2015-004, 2015-005, and 2015-006 to be material weaknesses.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2015-002 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the LaRue County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations items 2015-002 and 2015-005.

**County Judge/Executive's and Jailer's Responses to Findings**

The LaRue County Judge/Executive's and Jailer's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The LaRue County Judge/Executive's and Jailer's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

  
Mike Harmon

Auditor of Public Accounts

July 12, 2016

**LARUE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2015**



**LARUE COUNTY**  
**COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2015**

**FINANCIAL STATEMENT FINDINGS:**

**2015-001 The LaRue County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash And Receipts**

The LaRue County Treasurer prepared and deposited receipts, posted receipts to the accounting system, prepared monthly reports for fiscal court and quarterly reports for the Department for Local Government, made cash transfers between funds and bank accounts, and performed bank reconciliations for all bank accounts. The fiscal court has not implemented a policy to ensure segregated duties or sufficient compensating controls. Lack of adequate segregation of duties and too much control by one individual could result in the undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the county cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system.

We recommend the fiscal court strengthen internal controls by segregating the duties involved in receiving, recording, reconciling, and reporting receipts. If segregation is not possible, we recommend further compensating controls, such as a receipt listing prepared by another person to compare to deposit tickets and ledger posting, and implementing reconciliation of ambulance receipts with other personnel by the county treasurer.

*Judge/Executive's Response: Lack of Segregation of Duties is a somewhat standard comment found in most small and medium county audits. The resolution to this audit comment is the hiring of additional personnel, which counties cannot afford. We understand the requirement to place this comment in most county audits.*

**2015-002 The LaRue County Fiscal Court Lacks Strong Internal Controls Over Disbursements**

The LaRue County Fiscal Court had a deficiency in internal controls over disbursements which caused the county to be out of compliance with state budget law. The LaRue County Fiscal Court approved claims and made appropriations in excess of budgeted appropriation amounts 283 times during the fiscal year without approval of budget transfers prior to overspending. These claims were approved and paid even though the budget line item did not have sufficient budgeted free balance. The fiscal court does not have sufficient internal controls in place to ensure compliance with state budget laws. Strong internal controls over disbursements are important to ensure the budget is not overspent. The lack of internal controls increases the risk of material misstatement due to fraud or error.

KRS 68.275(1) states, "Claims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the county judge/executive by a warrant drawn on the county and co-signed by the county treasurer." Strong internal controls dictate that fiscal court approve budget transfers prior to disbursing funds to prevent overspending budget line items.

We recommend the fiscal court implement strong internal controls over disbursements to ensure that budget transfers be obtained prior to disbursing funds to prevent overspending budget line items.

**LARUE COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2015-002 The LaRue County Fiscal Court Lacks Strong Internal Controls Over Disbursements (Continued)

*Judge/Executive's Response: This comment has been made in prior audits and refers to the accounting procedure/program used by the Fiscal Court. The current program used will cause a negative balance to appear on the ledger sheet prior to a transfer to the account resulting in a positive balance. Sufficient funds are available for disbursement but by having the negative balance show, even for only a matter of minutes, the ledger appears to have a claim paid without a corresponding positive balance on the ledger sheet. The vendor of the program has worked with staff to implement procedures to address the error and correct the issue in the comment.*

2015-003 The LaRue County Fiscal Court Lacks Adequate Controls Over Capital Assets

The capital asset schedule prepared by the county did not include all additions or disposals to accurately reflect the prior year audit. The auditor noted there is no annual inventory count review or reconciliation of the inventories to the capital asset schedule to ensure accuracy. Insufficient records and management oversight resulted in noncompliance with the Department for Local Government's policy documented in the *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. Not implementing an annual inventory count or maintaining an accurate list of capital assets could result in new assets not being insured and retired assets not being removed from the insurance. Further, the capital asset schedule included in the financial statements could be materially incorrect. Per the Department for Local Government's policy the asset inventory listing should provide the following detail: property tag number, asset description, serial number (if applicable), quantity (if applicable), cost, date of acquisition, date of disposal, property location, and manager/individual responsible. Good internal controls over compliance dictate adequate supporting documentation be maintained for assets and the capital asset schedule be updated regularly throughout the year to ensure accurate information is recorded.

In order to strengthen controls over capital assets and infrastructure, we recommend the fiscal court conduct annual inventories and require departments to submit completed inventory sheets to the county judge/executive's office. The submitted inventory should then be reconciled to the capital asset schedule. We recommend the county's capital asset schedule include the date of acquisition and the additions, disposals, and retirements be documented accordingly.

*Judge/Executive's Response: GASB (Governmental Accounting Standards Board) principles have changed and required additional inventory accounting. All major capital assets are have been, for years, inventoried and documented. However, GASB now requires the inventory of assets, many formerly considered minor in nature, that were not inventoried in the past. Inventories will be updated to include all that meet the requirement threshold.*

**LARUE COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2015-004    The LaRue County Fiscal Court Lacks Adequate Controls Over Reconciliation Of The Payroll Revolving Bank Account

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The county has not completed regular, accurate reconciliations for this bank account, resulting in a balance at June 30, 2015 of \$110,639. This includes interest earned over several years. In addition, the account was overdrawn several times during the year causing overdraft fees totaling \$925. Insufficient records and management oversight resulted in a control weakness over the payroll revolving bank account. Not reconciling the payroll revolving bank account monthly could result in misappropriation of funds and inaccurate financial reporting. Good internal controls require timely, accurate reconciliations to ensure all funds are properly accounted for.

We recommend the county complete monthly reconciliations of the payroll revolving bank account and reconcile the account to zero every month. A listing of outstanding checks and liabilities should be attached to each monthly report. Sufficient funds should be transferred to pay payroll to avoid overdraft charges. We recommend that funds remaining in the payroll revolving fund totaling \$110,639 be transferred to the general fund.

*Judge/Executive's Response: Upon resignation of the Sheriff in February 2013, an advancement account had not been established by the Sheriff for payment of his office payroll expenses. This required funds to be advanced to the payroll account and the lack of the Sheriff's state advancement account caused the payroll account to be overfunded and underfunded for a period of time. The funds have now been transferred to the general fund and the issue no longer exists.*

2015-005    The LaRue County Jailer Did Not Prepare An Annual Financial Statement And Maintain Required Records For The Jail Commissary Fund

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The annual report of the jail commissary fund was not provided to the county treasurer at fiscal year-end. The jailer did prepare a cash flow summary for the auditor. However, it did not accurately reflect the commissary's records. The cash flow summary does not indicate the source of receipts as required. It reflects only the deposits made as an account line item "cash on hand." The expenditures are listed by source, but do not separate jail commissary from jail inmate monies. These deficiencies in jail commissary fund for accounting and reporting were allowed to occur because the Jailer's controls and oversight over reporting did not operate properly. Failing to maintain accurate records can result in inaccurate information as to funds available for use for benefit of the inmates. Good internal controls dictate that adequate reporting be maintained for all receipts and disbursements. Kentucky Revised Statute (KRS) 441.135 requires the jailer to maintain records of receipts and disbursements of the Jail Commissary Fund and to prepare a report annually for the county treasurer. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The instructional guide for *County Budget Preparation and State Local Finance Officer Policy Manual* provides guidelines to maintaining records for the jail commissary fund.

In accordance with these guidelines, the Jailer should maintain the following records:

- Daily checkout sheets should include a category for all funds collected to be posted to the jail commissary receipts journal.
- Jail commissary receipts journal should agree with the daily checkout sheets and include a category for all funds collected.

**LARUE COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2015-005 The LaRue County Jailer Did Not Prepare An Annual Financial Statement And Maintain Required Records For The Jail Commissary Fund (Continued)

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In accordance with these guidelines, the jailer should maintain the following records (Continued):

- Jail commissary disbursements journal should include every check written. Each check written should be posted to the proper category.
- Jail commissary summary and reconciliation can be used as a monthly cash reconciliation and as the year-end report to be submitted to the county treasurer. The year to date summary section of this report will provide a cash balance at any time during the fiscal year. Information for this section is obtained from totaled categories from the receipt and disbursement journals. A monthly cash balance shall be maintained. The reconciliation section of this report reconciles the bank balance to the cash balance.

We recommend the jailer comply with the applicable statutes by maintaining required records and preparing and submitting an accurate annual commissary report to the county treasurer at year-end that includes all receipts and disbursements and reconciles to the receipts ledger and disbursements ledger.

*Judge/Executive's Response: The comment must be addressed by the Jailer who is in charge of jail operations and accounting.*

*Jailer's Response: None.*

2015-006 The LaRue County Jail Lacks Adequate Segregation Of Duties

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A lack of segregation of duties exists over all jail commissary fund accounting functions. The bookkeeper receives the mail, prepares and deposits the receipts, and writes checks. Adequate segregation of duties would prevent the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. If one employee is solely responsible for the receipt, disbursement, the reconciling process, and reporting, the risk of misappropriation of assets and inaccurate financial reporting increases. The Jailer should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the jailer cannot ensure all receipts and disbursements are properly recorded and accounted for.

We recommend the jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to a limited number of staff or a limited budget, strong oversight should be provided over the employee responsible for these duties. Any compensating controls performed should be documented.

*County Judge/Executive's Response: The comment must be addressed by the Jailer who is in charge of jail operations and accounting.*

*Jailer's Response: None.*

